COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE UNION LIGHT, HEAT AND POWER COMPANY TO MODIFY ITS OFF PEAK SALES AND TRANSPORTATION SERVICE TARIFFS	))))	CASE NO. 89-198

O R D E R

On June 16, 1989, The Union Light, Heat and Power Company ("ULH&P") filed an application to modify the minimum bill provision in its gas tariffs for off peak sales and transportation service. The proposed modification would change the minimum bill requirement from a dollar amount to a throughput minimum for customers served under Rate OP, Off Peak ("OP"); Rate TS, Transportation Service ("TS"); and Rate CF, Interruptible Competitive Fuel Service ("CF"). ULH&P also proposed to include language in its TS tariff that would bill volumes in excess of nominated volumes in accordance with the provisions of the OP tariff.

ULH&P's application states that the proposed minimum bill change is responsive to end-use customer dissatisfaction with the minimum requirements that must be satisfied under the OP tariff. ULH&P reports that customers are unable to pursue their least cost supply option between sales and transportation service due to the current minimum requirements. ULH&P also contends that the existing minimum bill provision represents an unwarranted subsidy of the system supply customers by the off peak and transportation customer group, because ULH&P no longer contracts "D-2" demand volumes for these customers. No customer receiving service under the OP, TS, or CF tariff schedules would be adversely impacted or receive an increase in rates as a result of the proposed change, according to ULH&P.

In its Order of September 21, 1989, the Commission requested the dollar amount of the "unwarranted subsidy" of system supply customers by the off peak and transportation customer groups. ULH&P replied that no dollar amount had been determined to quantify the subsidy. In a subsequent response, ULH&P provided names of customers who had expressed dissatisfaction with the current minimum bill requirement. No correspondence outlining the customers' specific concerns was available.

The Commission then requested ULH&P to provide billing analyses for OP, TS, and CF customers comparing revenues received under current minimum bill tariff provisions and the revenues that would have been received during the same time period if the proposed minimum bill modifications had been in effect. ULH&P's response showed that for the 12 months ended August 1989 the proposed tariff modification would have resulted in a loss of revenue of $112,898.

After considering the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. ULH&P's proposed tariff modification will result in a decrease in revenues to the utility. ULH&P has not established that any corresponding decrease in expense to the utility will occur or has occurred. ULH&P stated in its application that it

"no longer" contracts D-2 demand volumes for the benefit of these customers, the implication being that that particular expense is no longer incurred on their behalf. The Commission's attempt to clarify that point and quantify the dollar amount involved was unsuccessful, with ULH&P stating in its response of December 20, 1989 only that there are no D-2 volumes allocated to these customers. It is not clear whether D-2 volume expenses were ever incurred for the benefit of these customers, or if they were incurred at one time but are no longer incurred (possibly as a result of supplier agreements reached in January 1987). In any event, revenues collected from these customers are utilized by ULH&P to offset expenses and provide a contribution to net income. It is neither reasonable nor in the public interest to approve a decrease in revenues absent a clear showing of the effect on ULH&P's expenses, other customer classes, and allowed return on equity.

2. ULH&P does not contend that customers dissatisfied with the current minimum bill requirement are undergoing any particular hardship, are suffering a competitive disadvantage due to the minimum bill, or are considering switching to alternate fuels. The equities of revenue responsibility among customer classes, including the issue of the allocation of demand costs to interruptible customers, is more appropriately addressed in general rate proceedings, at which time testimony from affected customers can be considered as well.

3. ULH&P's proposed modification to its minimum bill requirement should be denied absent a request for a hearing. If a

hearing is requested, ULHP should be prepared to present additional information to support its filing.

4. ULH&P's request to modify its TS tariff to provide for billing of volumes in excess of nominations at the OP rate appears reasonable. This modification will require transportation customers to pay for all gas used in a particular month and should alleviate imbalance problems on ULH&P's system.

IT IS THEREFORE ORDERED that:

1. ULH&P's request to modify the minimum bill requirement of its OP, TS, and CF tariffs is hereby denied absent ULH&P's request for a hearing within 20 days of the date of this Order.

2. ULH&P's request to modify its TS tariff to provide for the billing of volumes in excess of nominations is fair, just, and reasonable and is hereby approved to be effective on and after the date of this Order.

3. Within 30 days of the date of this Order, ULH&P shall file with this Commission its revised tariff sheets setting out the TS tariff modification authorized herein.

Done at Frankfort, Kentucky, this 2nd day of March, 1990.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Executive Director